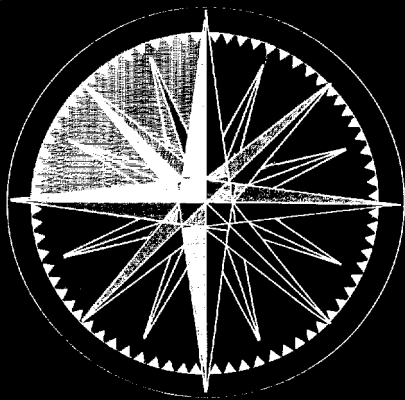


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12 March 1965

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SPECIAL REPORT

PROSPECTS FOR CONTINUED CUBAN IMPORTS FROM THE FREE WORLD

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE



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PROSPECTS FOR CONTINUED CUBAN IMPORTS FROM THE FREE WORLD

The Castro regime's plans to increase Cuba's annual sugar output to 10 million tons by 1970 require considerable expansion of a wide range of transportation and production facilities. It is looking to the West for much of the equipment needed. Also high on Cuba's priority import list are new machinery for the nickel industry --which the regime expects to become a major foreign exchange earner--and stock and commodities to boost cattle and dairy production, which Castro hopes will assume an importance in Cuba's economy second only to sugar.

Cuba's 1964 imports from the free world climbed to about \$300 million, thanks to high world prices for sugar and the willingness of certain countries to guarantee credits for sales to Cuba. Prospects for trade in 1965 have fallen sharply, however, primarily as the result of a precipitous drop in the price of sugar. It now appears that Cuba will have substantially less in export earnings to finance imports from non-Communist sources during the current year.

Trade in 1964

In January 1964, Castro personally launched an intensive effort to expand trade with the free world. High world sugar prices in 1963 made it possible for the regime to go into this drive with a foreign exchange reserve of some \$100 million. In Havana's view, large-scale purchases of non-bloc goods served a double purpose. The goods themselves are

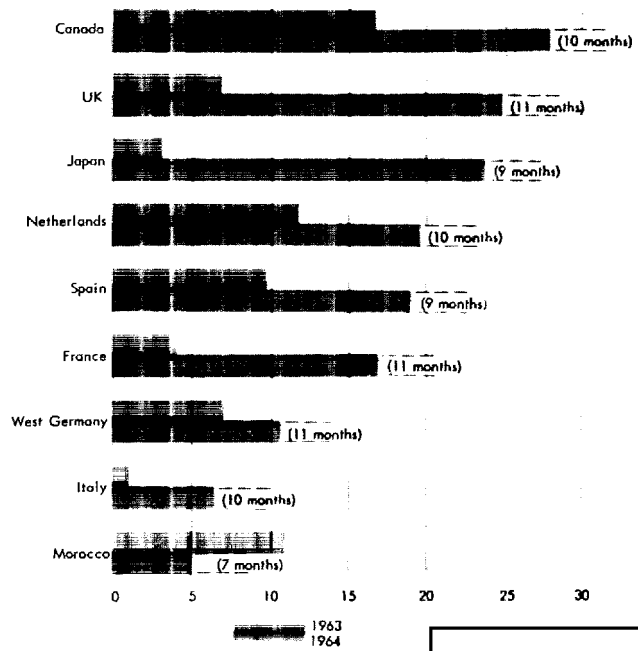
considered of higher quality than those the bloc could supply, and their importation amounted to a frontal attack on the US-encouraged trade embargo against Cuba.

Early gains were impressive. That January, the British Government guaranteed a five-year credit for the sale of 500 Leyland buses (later increased to 950 buses), and the French Government provided a guaranteed

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CUBAN IMPORTS FROM SELECTED FREE WORLD COUNTRIES
in millions of US dollars



credit for the sale of locomotives and trucks. Until mid-summer, Cuban trade missions crisscrossed Europe, Canada and Japan, and eventually contracted for the import of \$300 million worth of both capital and consumer goods including transportation equipment, food, fertilizer, construction equipment, and spare parts.

Not until late June and early July did the Cuban Government take stock of its financial situation and realize that its wide-ranging and uncoordinated spending activities were rapidly depleting the government's financial resources.

It is estimated that by the end of the year, the regime's convertible foreign exchange reserves had fallen to less than \$40 million.

In August, a major revision was instituted in Cuba's foreign commercial activities. In short order, the ministers of economy and foreign trade were dumped. Control of overall foreign trade matters was centralized, apparently in the hands of President Osvaldo Dorticos.

These reorganizations are continuing. In late fall, the government established a new enterprise, Cubaindustrial, which is empowered to negotiate contracts for complete industrial plants. Other reorganizations may be instituted.

1965 Purchasing Power

Despite these efforts toward "rationalization" in foreign trade, Cuba's prospects for trade with the free world in 1965 are not as bright as they were last year. Although this year's sugar harvest is expected to yield some 4.5 to 5 million metric tons, compared with 4.1 million last year, exports to the free world are not expected to rise much above the 1964 level of 1.5 million tons. On the basis of current world market prices, Cuba will

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probably receive not much more than 3 cents per pound for shipments this year. The average 1964 price was 7-8 cents per pound.

Sugar exports together with sales of other products--primarily tobacco, metals, and food--should bring Havana's earnings in the free world during 1965 to about \$125-150 million. This comparatively meager sum combined with the unpaid bills the Castro regime has run up in recent months, points to a downturn in the purchasing program. Even if this action is not taken voluntarily, the reluctance of free world governments to guarantee further credits to Cuba will serve to limit its commercial activities abroad.

Outlook

The severe reduction of the Cuban Government's monetary reserves and the unpromising estimates of its 1965 income seem to preclude any continuation of last year's buying spree. Indeed, it is probable that Havana will be unable to conclude contracts for all the items now

under negotiation, which would cost upwards of \$150 million.

Castro himself seems conscious of the problem and has publicly stated that Cuba must produce 5.5 million tons of sugar this year just to meet its "commitments." Even if Castro's exhortations are completely fulfilled, Cuba would not necessarily be delivered from its present financial problems. Any sugar produced above the currently estimated 4.5- to 5-million-ton harvest likely to be gathered this year would probably be offered on the free world market, but Cuba does not stand to gain much by a move that would further depress the already low price of sugar.

It is by no means certain, however, that the Cubans will be guided by either economic realities or simple prudence. It is therefore not inconceivable that they will overestimate export earnings or sign contracts above their ability to pay, or both. Such rashness could bring on another painful retrenchment like the one last summer. It could also help to reduce Cuba's already shaky credit rating, at least in the free world. [REDACTED] 25X1

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